

November 22, 2016

Mr. Gerard Poliquin
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314

Dear Mr. Poliquin:

Re: Comments on NCUA's Second Field of Membership Proposal

On behalf of First Source Federal Credit Union's Board of Directors and Management Team, I am writing to you regarding the National Credit Union Administration's (NCUA's) second proposed rule amending the Chartering and Field of Membership (FOM) Manual. We would first like to commend the NCUA Board for making substantive changes to the Field of Membership Rule at its October Meeting.

We appreciate NCUA's initiative in this rulemaking in an attempt to provide even more meaningful regulatory relief to credit unions within the bounds of current statute and welcome the opportunity to comment on this proposal. The credit union industry has long advocated the need for Field of Membership modernization, has felt that the agency has taken a much too conservative interpretation of the statute in the past and very much appreciates the NCUA Board taking the initiative to further address this important issue.

Modernizing Field of Membership rules for Federally Chartered Credit Unions is especially important in light of action taken in many states, including New York State, in enhancing FOM rules for the state chartered credit unions we compete with. In many cases, the federal charter has been put to a disadvantage due to more appealing state charters. We believe it is important to put federal charters on equal footing with state charters to avoid an exodus of federal charters to the state alternative.

Meaningful FOM reform will assist credit unions in diversifying their membership base and provide long-term financial stability; and, we applaud NCUA for proactively seeking out feedback from stakeholders in the industry.

We are in support of the three primary provisions of this second proposed rule as we would have liked to have seen them included in the final FOM rule approved by the NCUA Board at its October meeting. We commend the Board for this follow up proposal that we believe has merit.

Regarding the authorization of a narrative option for a federal credit union desiring to apply to serve a well-defined local community consisting of political jurisdictions that do not fall neatly within a Core Based Statistical Area (CBSA) Metropolitan Statistical Area (MSA) or Combined Statistical Area (CSA), we feel this is an option that should be adopted and made available to Federal Credit Unions.

As proposed, permitting a Federal Credit Union to submit a narrative application, supported by appropriate documentation, to demonstrate that the community it proposes to serve qualifies as a well-defined local community based on common interest or interaction among the area's residents is a sound, logical proposal.

We recognize that the burden will be on the credit union to make a documentable case for an interactive community in accordance with the 13 criteria referenced in the proposed rule and agree that the standards outlined are appropriate for making such a case; however, we feel that a Federal Credit Union should be able to make its narrative case to NCUA in support of its application for expansion. The credit union should be able to document for the record that it has the operational ability to serve a community, a desire and commitment for extending its lower cost financial services into that community, a safe and sound business plan as to how it will extend its services to the entirety of the community and the financial strength with which to do so.

Likewise, we do not believe that the definition of a community should be limited by an arbitrary population cap. Even though the proposed rule increases the population cap for a community charter to ten million from the current 2.5 million and that is certainly a more flexible size with which a Federal Credit Union can work in developing its strategic objectives, we fail to see the necessity of a population cap at all.

A true interactive community would seem to us to be a community regardless of size. A community either qualifies as an interactive and well-defined local community or it does not. The question should be, instead, whether the credit union making the application to serve the entire community can do so effectively and safely. If it can, a Federal Credit Union should be able to serve it if it has the financial wherewithal to do so and has a safe and sound business plan to deliver its services to the entire community. If it does not, it should not qualify. Population size should not be the determining factor for defining a community with some arbitrary cap.

Our recommendation, in response to your request for comments on the ten questions raised in the proposal, would be for NCUA to remove population caps from the Field of

Membership rules as it related to community charters in their entirety. The determining factors for a well-defined local community should be the documentation of the interaction standard either through the defined MSA and CSA status as outlined in the FOM rule approved in October 2016 or through the narrative process as outlined in this proposed rule.

If, contrary to the true modernization that the NCUA Board seeks to achieve, the Board remains of the opinion that a population cap is somehow warranted even when such a cap is not required by statute we would have to conclude that a ten million population cap is preferable to a 2.5 million population cap. However, we continue to believe that and population cap seems to be arbitrary and, frankly, unnecessary and detrimental to the industry when there are other standards clearly specified in the NCUA rules to document and define a community.

The provision to permit a credit union to designate a portion of a Core Based Statistical Area as its community without regard to division boundaries is very logical and is consistent with the earlier FOM rules approved by the NCUA Board. If this provision were to be adopted, credit unions unable to serve an entire CBSA would certainly take advantage of the option of serving a portion of that area and bring low-cost financial products and services to consumers in that marketplace.

In addition to the comments provided above, we would also urge NCUA to reconsider the provision in the first proposed rule that was not adopted relative to a Congressional district being a well-defined local community.

The original proposal would have recognized these individual Congressional districts as fitting the definition of a "Single Political Jurisdiction," qualifying each district as a "well-defined local community" without regard to population. In the event of redistricting, the proposal explained that a Federal Credit Union that was approved to serve a Congressional District would be grandfathered to continue serving the area. However, the original Congressional District would no longer be available to be served by any other Federal Credit Union.

Similar to the recognition of Combined Statistical Areas, NCUA's recognition of areas codified by other agencies of the United States government or state governments would significantly help community chartered credit unions that are looking for growth opportunities within the confines of the *Federal Credit Union Act*. By providing more avenues for community charters to grow, the proposal will not only increase consumer choice in the marketplace but it will also increase access to affordable financial services. We continue to strongly support this proposal.

In closing, we applaud the agency's willingness to consider further amendments to Chartering and Field of Membership Manual to provide more regulatory relief for the

industry. We believe that such action will further met the needs of America's Credit Unions and enable them to have managed growth with the diversification of membership necessary to remain competitive, safe and sound in today's challenging marketplace.

Very truly yours,

A handwritten signature in black ink, appearing to be 'MJP', with a long horizontal stroke extending to the right.

Michael J. Parsons
President/CEO